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## AIRPORT COMMISSION:

Concession Review of  
Lady Luck Gourmet, LLC

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JUL 16 2007

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July 12, 2007



### **AIRPORT COMMISSION:**

Concession Review of  
Lady Luck Gourmet, LLC

DOCUMENTS DEPT.

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July 12, 2007





CITY AND COUNTY OF SAN FRANCISCO

OFFICE OF THE CONTROLLER  
CITY SERVICES AUDITOR

Ed Harrington  
Controller

Monique Zmuda  
Deputy Controller

July 12, 2007

San Francisco Airport Commission  
P.O. Box 8097  
San Francisco International Airport  
San Francisco, CA 94128-8097

President and Members:

The Office of the Controller presents its report concerning the review of Lady Luck Gourmet, LLC (Lady Luck). Lady Luck operated two interim food and beverage facilities at the San Francisco International Airport under separate permits with the Airport Commission of the City and County of San Francisco from September 2004 through September 2005. Currently, Lady Luck has a ten-year lease, expiring in 2016, with the Airport Commission to operate a restaurant, Go Bistro, at the San Francisco International Airport.

**Reporting Period:** September 1, 2004, through December 31, 2006

**Rent Paid:** \$339,556

**Results:**

Lady Luck reported gross revenues of \$2,777,177 to the Airport Department (Airport); however, its accounting records showed it earned gross revenues of \$2,861,512, or \$84,335 more than it reported to the Airport. According to Lady Luck's controller, Lady Luck underreported revenues because of a programming error in its cash registers, and because it made some clerical errors in reporting gross revenues. In addition, Lady Luck miscalculated its rent due for several months because it did not always apply the correct percentages to calculate its rent. As a result, Lady Luck owes \$43,136 in additional rent and \$7,978 in late interest charges.

Lady Luck and the Airport have both provided a response which is attached to this report. The Controller's City Services Auditor will follow up with the Airport on the status of the recommendations.

Respectfully submitted,

Harriet Richardson  
Director of Audits

cc: Mayor  
Board of Supervisors  
Civil Grand Jury  
Public Library





# INTRODUCTION

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## BACKGROUND

Lady Luck Gourmet, LLC (Lady Luck) operated two food and beverage facilities, Go Bar 1 and Go Bar 2<sup>1</sup>, at the San Francisco International Airport (SFO) under separate permits with the Airport Commission (Commission). Lady Luck operated Go Bar 1 from September 2004 through March 2005, and Go Bar 2 from May 2005 through September 2005. Both permits required Lady Luck to pay the Airport Department (Airport) rent of 20 percent of gross revenues generated at each facility.

After ceasing operations at the two facilities, Lady Luck began operating on January 28, 2006, its current food and beverage facility, Go Bistro, at SFO under a ten-year lease with the Commission. The lease requires Lady Luck to pay the Airport the greater of a minimum annual guarantee or a tiered percentage rent of 8 to 12 percent of annual total gross revenues.

## SCOPE AND METHODOLOGY

The purpose of this review was to determine whether Lady Luck complied with the reporting and payment provisions of its permits and lease with the Commission. Our review covered the period from September 1, 2004, through December 31, 2006.

To conduct the review, we examined the applicable terms of the permits and lease and the adequacy of Lady Luck's procedures for collecting, recording, summarizing, and reporting its gross revenues to the Airport. To determine whether Lady Luck accurately reported its gross revenues to the Airport, we compared its reported gross revenues to those recorded in its internal monthly summary records for all months of the review period. We tested, on a sample basis, Lady Luck's monthly sales records, daily sales reports, and bank statements. We also determined whether Lady Luck had any outstanding payments due to the Airport for the review period.

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<sup>1</sup> According to Lady Luck's controller, both of these food and beverage facilities were known as "Go Bar". For reporting purposes, we refer to the two facilities as "Go Bar 1" and "Go Bar 2".





## RESULTS

### LADY LUCK UNDERREPORTED ITS REVENUES AND MADE SOME ERRORS IN CALCULATING ITS RENT

Lady Luck reported \$2,777,177 in gross revenues and paid \$339,556 to the Airport Department (Airport). However, Lady Luck made errors in reporting its revenues and calculating its rent. As a result, it did not report \$84,335 in gross revenues from the operations of its food and beverage facilities, and underpaid its rent by approximately \$43,000. The exhibit below summarizes the results of our review.

#### EXHIBIT

##### Gross Revenues Reported and Rent Paid September 2004 Through December 2006

	Gross Revenues Reported	Unreported Revenues	Rent Paid	Additional Rent Due
<b>Go Bar 1</b>				
September 2004 through March 2005	\$ 399,910	\$52,227	\$ 79,982	\$ 10,446
<b>Go Bar 2</b>				
May 2005 through September 2005	<u>407,234</u>	<u>24,071</u>	<u>81,482</u>	<u>4,814</u>
Subtotal	807,144	76,298	161,464	15,260
<b>Go Bistro</b>				
January 1, 2006 through December 31, 2006	1,970,033	8,037	178,092	27,876*
Total	\$2,777,177	\$84,335	\$339,556	\$43,136

\* Of this amount, \$26,943 is due because Lady Luck did not use the correct percentage rent tiers in calculating its rent. The remaining \$933 is due because Lady Luck did not report all its revenue.

### Lady Luck Did Not Report All Revenues From Go Bar 1 and Go Bar 2

Lady Luck did not report \$76,298 in sales made at Go Bar 1 and Go Bar 2. According to Lady Luck's controller, Lady Luck initially operated cash register systems belonging to the former tenant, HMSHost. Further, he indicated that the cash registers were programmed to Lady Luck's business needs; however, the programming inadvertently caused the registers to exclude non-taxable sales from its daily sales reports. According to the controller, this error was not immediately identified by Lady Luck since HMSHost was responsible for reviewing Lady Luck's sales



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reports and reporting gross revenues to the Airport. Because Lady Luck did not have the daily summary reports for this period, we could not confirm the programming errors.

According to Lady Luck's controller, its staff discovered the errors in 2005 and as a result restated Lady Luck's internal monthly summaries; however, Lady Luck did not submit revised revenue reports to the Airport and did not pay the additional rent.

### **Lady Luck Made Errors in Calculating Rent and Reporting Revenues for Go Bistro**

Lady Luck also made errors in calculating rent and reporting its revenues from the operation of Go Bistro, resulting in \$27,876 in underpayments.

Lady Luck underpaid its rent by \$26,943 from June 2006 through December 2006, because it did not use the correct percentage rent tiers as required by its lease. As Lady Luck's gross revenues exceeded the tiers defined in its lease, Lady Luck did not apply the increased percentage rent required for those tiers. According to its controller, Lady Luck was unaware of the percentage tiers because the Airport did not provide a copy of the lease to Lady Luck, so it calculated its rent due by using percentages that were verbally conveyed by Airport's accounting staff. However, we noted that Lady Luck used the Airport's rental statements to submit its rent for the first two months of its operation of Go Bistro under the lease and these rental statements do indicate the correct percentage rent tiers.

Lady Luck also underreported its revenues by \$8,037 and underpaid its rent by \$933. Lady Luck's accounting records showed it earned \$8,037 more in revenues than it reported to the Airport. According to Lady Luck's controller, it understated revenues in some months because of clerical errors in transferring daily revenues from its cash register reports into its monthly summaries. Lady Luck did not identify these errors because it does not reconcile its manually prepared monthly summary reports, which it uses to report revenues to the Airport and to calculate rent due, with the monthly reports generated by its cash register system.

### **Lady Luck Owes Interest on Underpaid Amounts**

Because Lady Luck did not pay all its rent when due, it owes the Airport \$7,978 in late payment fees. Lady Luck's lease requires it to pay monthly interest of 1.5 percent for any overdue rent payments. We identified the rent Lady Luck had not paid each month, and calculated the interest that Lady Luck owes the Airport through April 30, 2007.



## RECOMMENDATIONS

The Airport Department should take the following actions:

1. Bill and collect from Lady Luck \$43,136 in underpaid rent.
2. Bill and collect from Lady Luck \$7,978 in late interest charges.
3. Advise Lady Luck to review the accuracy of its monthly rental statements by reconciling them with its cash register reports prior to submitting them to the Airport.
4. Advise Lady Luck to immediately inform the Airport of any restatement of its revenues.

We conducted this review in accordance with generally accepted government auditing standards. We limited our procedures to those areas specified in the scope and methodology section of this report.

Staff: Elisa Sullivan, Audit Manager  
Houman Boussina





# LADY LUCK GOURMET, LLC

## RESPONSE TO THE AUDIT

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June 11, 2007

Mr. Noriaki Hirasuna, Director of Financial Audits  
Office of the Controller  
City Hall, Room 476  
1 Dr. Carlton B. Goodlett Place  
San Francisco, CA 94102

Dear Mr. Hirasuna,

We are in receipt of the draft audit report concerning review of our concessions at San Francisco International Airport for the period September 2004 to December, 2006. Following are our comments on the auditor's findings:

Business continuity was an issue over the period audited. Externally, airport renovations forced three location changes in as many years, with downtime at every transfer. Internally, two general managers and other key personnel resigned, and controllership changed hands.

We do not contest the auditor's findings re interim operations. They are based on internally audited records we provided.

'Go Bar 1' took over the cash registers of prior tenant HMS Host. These cash registers were prone to breakdowns and failed to give accurate daily sales summaries.

'Go Bar 2' suffered the old cash registers for two months before purchasing new cash registers.

During above period, HMS Host received store reports (including daily sales summaries) and accepted payments on behalf of the airport, as holder of the master lease. They conducted periodic review of sales results but did not detect any inaccuracies.

The inaccuracies came to light later from internal reconciliation of bank deposits and credit card settlements against cash register sales reports. At this time it was determined that programming errors on the old cash registers caused only taxable sales to be reported on the sales summaries. Non-taxable sales of bakery items were not added up into the sales total. Meanwhile, HMS Host had ceased receiving reports and payments and the findings remained unreported.

MAIN OFFICE: 3569 Callan Blvd. So. San Francisco Ca 94080 Tel: (650) 873-0565 Fax: (650) 873-1301  
DOING BUSINESS: GO BISTRO Aslan Fuslon Bar & Grill; SFO International Airport Terminal 1 Boarding Area B





Corrected monthly sales summaries were provided to the auditor.

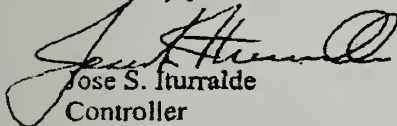
We also accept the auditor's findings re Go Bistro. Due to business continuity issues mentioned, records were in disarray when current controller assumed his post.

Guidance was requested from SFO's Accounting Department in the absence of percentage rent guidelines, and reports made in good faith that (it turned out) did not follow official percentage tiers.

We contest the auditor's recommendation that Go Bistro be charged interest for rents short-paid from reliance on SFO's wrong advice. During the same period, Go Bistro was over-charged a much larger amount by SFO for electric bills. As the errors were inadvertent and eventually corrected, Go Bistro did not collect interest from SFO.

Similarly, Go Bistro has yet to collect from SFO \$ 20,000.00 construction deposit and \$ 16,000.00 over-paid lease security deposit dating to Year 2005, on which the company is not charging interest. Calculated at the same interest rate used by the auditor, such interest, if charged, would exceed the interest suggested for Go Bar's liabilities.

Sincerely yours,

  
Jose S. Iturralde  
Controller



# AIRPORT DEPARTMENT RESPONSE TO THE AUDIT



San Francisco International Airport

July 9, 2007

P.O. Box 8097  
San Francisco, CA 94128  
Tel 650.821.5000  
Fax 650.821.5005  
www.flysfo.com

**CERTIFIED MAIL No. 7005 1160 0005 4116 6830**  
**RETURN RECEIPT REQUESTED**

Mr. Jose S. Iturralde  
Controller  
Lady Luck Gourmet  
dba Go Bistro  
3569 Callan Boulevard  
South San Francisco, CA 94080

Re: Lady Luck Gourmet dba Go Bistro – Lease No. L03-0196 ("Lease")

Dear Mr. Iturralde:

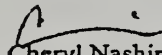
This letter is in response to your June 11, 2007 correspondence to Noriaki Hirasuna, the City's Director of Financial Audits. In response to our audit findings, you assert that Lady Luck Gourmet is waiting for the City to release a \$20,000 performance bond and return a \$16,000 overpayment of a lease security deposit.

I have enclosed a copy of a letter written by Airport Commission employee Gary Franzella on September 13, 2005 to Bank of America releasing the Commission's rights and interests to Investment CD No. 648 issued under Account No. 06480-03365 in the amount of \$20,000.

Also enclosed is a copy of our letter to Lady Luck Gourmet dated February 14, 2006 stating that in order for Lady Luck Gourmet to be reimbursed of the \$16,500 lease security deposit, Lady Luck Gourmet must complete a Claim for Refund form and return it to the Airport for processing. As of this date, the Airport has not received the completed Claim for Refund form from Lady Luck Gourmet.

Should you have any questions regarding this matter, please do not hesitate to call me at (650) 821-4500.

Sincerely,

  
Cheryl Nashir  
Associate Deputy Director  
Revenue Development and Management

cc: Houman Boussina

Enclosures

AIRPORT  
COMMISSION  
CITY AND COUNTY  
OF SAN FRANCISCO  
  
GAVIN NEWSOM  
MAYOR  
  
LARRY MAZZOLA  
PRESIDENT  
  
LINDA S. CRAYTON  
VICE PRESIDENT  
  
CARYL ITO  
  
ELEANOR JOHNS  
  
RICHARD J. GUGGENHEIM  
  
JOHN L. MARTIN  
AIRPORT DIRECTOR





San Francisco International Airport

P.O. Box 8097  
San Francisco, CA 94128  
Tel 650.821.5000  
Fax 650.821.5005  
www.flysfo.com

September 13, 2005

Bank of America, N.A.  
391 Serramonte Plaza  
Daly city, CA 94015

Subject: Investment CD No. 648  
Account No. 06480-03365  
Date Issued: July 9, 2003  
Original Amount: \$20,000  
Customer Name: Lady Luck Gourmet LLC  
for the Benefit of City & County of San Francisco  
Airport Commission

AIRPORT  
COMMISSION  
CITY AND COUNTY  
OF SAN FRANCISCO  
GAVIN NEWSOM  
MAYOR

LARRY MAZZOLA  
PRESIDENT

MICHAEL S. STRUNSKY  
VICE PRESIDENT

LINDA S. CRAYTON

CARYL ITO

ELEANOR JOHNS

JOHN L. MARTIN  
AIRPORT DIRECTOR


To Whom It May Concern:

I am an authorized representative of the City & County of San Francisco, Airport Commission. With regard to the selection process for the Domestic Terminal Food and Beverage Lease at the San Francisco International Airport, we acknowledge the following:

- 1) The City & County of San Francisco has no claim to Investment CD No. 648 issued under Account No. 06480-03365.
- 2) As the beneficiary under Investment CD No. 648 issued under Account No. 06480-03365, the City & County of San Francisco hereby releases its rights and interests in this Investment CD and authorizes the release of said Investment CD.

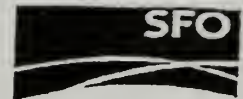
Thank you for your timely assistance with this matter.

Very truly yours,

  
Gary Franzella  
Associate Deputy Director







San Francisco International Airport

February 14, 2006

P.O. Box 8097  
San Francisco, CA 94128  
Tel 650.821.5000  
Fax 650.821.5005  
www.flysfo.com

VIA CERTIFIED MAIL 7005 1820 0008 2359 1164  
RETURN RECEIPT REQUESTED

Marina L. Go  
President  
Lady Luck Gourmet dba Go Bistro  
3569 Callan Boulevard  
South San Francisco, CA 94080

AIRPORT  
COMMISSION  
CITY AND COUNTY  
OF SAN FRANCISCO

GAVIN NEWSOM  
MAYOR

LARRY MAZZOLA  
PRESIDENT

MICHAEL S. STRUNSKY  
VICE PRESIDENT

LINDA S. CRAYTON

CARYL ITO

ELEANOR JOHNS

JOHN L. MARTIN  
AIRPORT DIRECTOR

RE: Domestic Terminals Food and Beverage Lease No. 03-0198 -  
Required Deposit and Insurance

Dear Marina:

Under separate cover, you were advised that Lady Luck Gourmet's Required Deposit Amount for the above-referenced Lease is \$32,980, which is equal to one-half of the Minimum Annual Guarantee. A review of your deposits on file show that \$16,500 was made in the form of a company check. As we have previously advised your staff, a company check is not deemed an acceptable form of deposit.

Please resolve this discrepancy by submitting to the Airport a deposit of \$18,520 (which includes replacement of the \$16,500 company check) in one of the following forms: surety bond, letter of credit, cashier's check, certified check, or money order. ~~In order for us to return the company check to you, please complete and return the attached "Claim for Refund" form as soon as possible.~~ ←

Further review of your file shows that you have not submitted any insurance information as requested by letter dated September 14, 2005. Lease Section 12.8 Delivery of Policies and Certificates requires that you provide copies of your insurance policies or certificates as evidence of coverage. For specific insurance requirements, please refer to Lease Sections 12.6 Insurance and 12.7 Form of Policies.

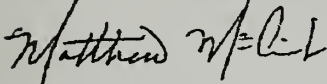


Ms. Marina Go  
February 14, 2005  
Page 2

As you are aware, Lady Luck Gourmet's continued operation at SFO is subject to your compliance with the Lease requirements. Please have bring your deposit and insurance files to current no later than March 1, 2006.

Please call me at (650) 821-4500 if I can be of assistance in this regard.

Very truly yours,



Matthew J. McCormick  
Principal Property Manager  
Revenue Development and Management

Enclosures: Deposit Recalculation Sheet  
Claim for Refund



# CITY AND COUNTY OF SAN FRANCISCO – CONTROLLER’S OFFICE

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- ☐ Media Reporter
- ☐ San Francisco Employee

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Objective & fair	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
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